



COUNCILMEMBER CARL DeMaio

FIFTH DISTRICT
CITY OF SAN DIEGO

MEMORANDUM

DATE: April 8, 2009

TO: Honorable Mayor and City Councilmembers

FROM: Councilmember Carl DeMaio *Carl DeMaio*

RE: Response to County Grand Jury Report on Repeal of People's Ordinance

From time to time the San Diego County Grand Jury weighs in with its perspective on policy issues facing government entities in our region. In its latest report "Time for Repeal of The People's Ordinance" the Grand Jury suggests charging residents a monthly fee for trash service as one solution to the city's ongoing financial crisis.

At a time when San Diegans are struggling financially to make ends meet – and the City of San Diego needs to make further progress in correcting inefficiencies and addressing high labor costs – any suggestion of imposing any new taxes or fees should be rejected by the City Council.

As the City is required to respond this report within 90 days, I ask that the attached formal response be considered by the City Council.

As an alternative to charging residents more (above their baseline property taxes) for trash collection, the attached response offers reforms (such as managed competition) to save taxpayers millions of dollars annually.

Contrary to the assumption articulated throughout the Grand Jury's report, the City of San Diego has much more work to do to curb spending. I hope that you will join me in issuing the attached response and focus our efforts back on implementing cost savings reforms rather than imposing additional tax and fee burdens on our residents.

CC Andrea Tevlin, Independent Budget Analyst

DRAFT
PROPOSED CITY RESPONSES TO GRAND JURY REPORT
“TIME FOR REPEAL OF THE PEOPLE’S ORDINANCE”

FINDINGS

Finding 1

The [People’s] Ordinance is inequitable because it forces some residents to pay for trash services, while it provides trash services to others without an additional fee.

City response: Partially disagree. This Finding does not adequately explain that all residents pay for trash services through their contributions to the General Fund via property and sales taxes.

Finding 2

The total annual cost to the City for all trash and recycling services provided without a fee to San Diego residents is \$52.7 million per year.

City response: Disagree. First, the Environmental Services Department (ESD) indicated that if new costs for billing, administrative expenses and containers were included, the total fee revenue to the City may be as high as \$65 million.

Second, simply noting the current “cost to the City...without a fee” does not comprehensively address the issue of efficiency. While the notion of “full cost recovery” has been discussed at length throughout the current budget process, the City must first eliminate inefficiencies in its operations.

As part of the rationale for *Finding 2* and *Recommendation 09-02*, the report states that

“...voters would be more likely to approve the repeal [of the People’s Ordinance] if they had confidence that the City is managing its other financial problems wisely. The City employees’ pension board and City officials have recently acted to reign in the pension fund deficit, to negotiate more favorable labor contracts, and to reduce the size of City government.”(Emphasis added.)

Contrary to the above assertions, debts in the pension and post retirement medical program (retiree health) continue to represent serious financial obstacles. Also, the City needs to continue progress on the issue of high labor costs, and voter-approved reforms need to be implemented. Specifically:

- **Significantly Increased Pension Debt:** The last monthly estimate of the unfunded liability of the pension (UAAL) showed more than a \$1 billion increase since June 2008. This means that based on current market conditions, the UAAL for the City’s pension fund is estimated at \$2.25 billion, a funded ratio of 62.2%.

- **Retiree Health Care Debt:** A separate valuation of the City’s retiree health care program revealed a UAAL of over \$1 billion.
- **Taxpayers Covering For Employee Retirement Contributions:** Expenses associated with “employee offsets” cost taxpayers more than \$39 million in FY 2009. The City “picks up,” or pays a portion of the employee’s retirement contribution *in addition* to the City’s contribution.
- **Supplemental Pension:** City employees (non-public safety) receive a second defined-contribution pension, the Supplemental Pension Savings Plan (SPSP). This pension is *in addition* to the defined benefit pension, and cost taxpayers nearly \$24 million in FY 2009.
- **Delays in Managed Competition Implementation:** Under Managed Competition, which was approved by voters in 2006, competitive market forces would be harnessed to produce the best bargain for taxpayers. Unfortunately, as the City’s Chief Operating Officer recently noted, “the city’s labor unions have been steadfast in their efforts to delay managed competition at every turn,” and these delays have “come at the expense of a considerable investment of time” on the part of City officials and employees.

Until sufficient progress has been made in minimizing the City’s costs of providing services, taxpayers should not be asked to support any new or increased “cost recoverable” fees.

Finding 3

A variable rate pricing strategy would reduce the amount of waste going to the City’s landfill and increase the amount of material being recycled.

City response: Partially disagree. The Grand Jury Report refers to a study conducted by the Reason Foundation entitled “Variable-Rate or ‘Pay-As-You-Throw’ Waste Management.” This study examines anecdotal experiences, benefits and concerns associated with a variety of variable rate pricing strategies. Should voters repeal the People’s Ordinance, the pros and cons of different pricing strategies, as well as policy objectives would have to be taken into account before implementing a new fee structure.

Ironically, the Grand Jury report uses Reason Foundation research as a primary source document for its findings related to variable rate structures, but makes no mention of the organization’s steadfast support of Managed Competition for San Diego’s trash service. In fact, a readily available June, 2008 article¹ notes that:

¹ Summers, Adam. “San Diego Can Benefit from Private Trash Collection.” Reason Foundation: June 16, 2008. <http://www.reason.org/news/show/1003131.html>

“A 1995 study of 120 local governments in 34 states found that, between 1987 and 1995, the percentage of cities contracting out for solid waste collection increased by 20 percent and that 100 percent of participants saw cost savings from this approach...Given the widespread use and proven success of trash collection competition programs, San Diego is wise to finally utilize this tool to provide better services at less cost to taxpayers.”

As explained in the response to *Finding 2* above, any discussion of increasing or instituting new fees-for-service must necessarily follow the minimization of costs by the City. This cost minimization should include the implementation of Managed Competition.

RECOMMENDATIONS

Recommendation 09-02: Place a measure on the ballot to repeal the Ordinance.

City Response: Currently, the People’s Ordinance prohibits the City from charging a fee-for-service for trash pickup. While concerns over certain inequities inherent in the current system may be valid, the City has an obligation to minimize its costs for providing services to residents. This cost minimization includes making further progress on employee compensation and implementing voter-mandated management tools provided to the Mayor, such as Managed Competition. Until these options for reducing costs have been implemented, taxpayers should not be asked to approve fee increases.

Recommendation 09-03: Consider adopting a variable-rate fee schedule for trash services provided by the City once the Ordinance is repealed.

City Response: Following the successful minimization of costs on the part of the City, the most efficient pricing structure that allows for the achievement of policy goals should be implemented, if and only if voters were to approve the repeal of the People’s Ordinance.